



# Budget Basics

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## INTRODUCTION

This Part of the *2001/2002 Biennial Budget* presents the basics on how the Budget was developed.

The sources and uses of funds - that is, where the City receives its funds and how they are then spent - are described.

The various policies that shaped the Budget - that is, the background or basis for the decisions that were made in arriving at a budget - are described.

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## BIENNIAL BUDGET

In Cincinnati, the City Council approves a Biennial Budget which covers a two-year period. The primary advantage to a Biennial Budget is that the multi-year horizon provides an opportunity to enhance planning for City programs and services. With a view toward the future, issues can be anticipated and resolved before they become crises. Programs can be phased in or out more readily and fluctuations in resources can be better managed. Another advantage of the Biennial Budget is the saving of time and effort by the City staff and the City Council in the second, or “off” year of the biennial cycle.

Although the City Council approves a multi-year Budget, the State of Ohio requires cities to appropriate funds annually. For the first year of the biennium the budget is “appropriated” by the City Council and the budget for the second year of the biennium is “approved” by the City Council. Subsequently, for the second year of the biennium, the City Council must formally appropriate the approved 2002 Budget Update.

## Operating Budget and Capital Budget

The Operating Budget covers the day-to-day delivery of City services. It is similar to a family budget for daily needs, such as rent and utilities. Operating expenditures cover the hours worked by City employees and the supplies they use to deliver services such as police officer patrols, the filling of potholes, weekly trash collection, and operating a 24-hour water treatment system.

The Capital Budget is for the improvement, construction, or purchase of City assets which cost \$10,000 or more and last at least 5 years such as City buildings or fire pumper trucks. Similar to a family which saves and borrows money to buy a house, the City uses a combination of cash and borrowed funds to invest in assets such as health clinic facilities which serve citizens now and in the future. The new College Hill Recreation Center is an example of how the two budgets interrelate. It is being built with Capital Budget funds but the staff and supplies needed to operate the Center will be funded from the Operating Budget.

Infrastructure is a key Capital and Operating Budget priority for Cincinnati. Infrastructure is defined as a City’s physical assets - streets, bridges, parks, recreation facilities, water system, sewers, and City-owned buildings. In the late 1980's, the poor condition of the infrastructure in many older, large cities was recognized as a crisis across the nation. In Cincinnati, an independent citizen’s commission was formed to prepare an Infrastructure Improvement Program which was approved by the City Council in 1987. In the following spring the voters approved a 0.1% income tax to fund infrastructure improvements with a condition attached - if for any reason the City did not budget or spend sufficiently for infrastructure, the tax would expire. Therefore, the City has an “infrastructure mandate” to budget capital funds to replace structures and to budget operating funds for daily maintenance and repair of our infrastructure.

## Consolidated Plan Budget

The City receives four formula grants from the U.S. Department of Housing and Urban Development (HUD) for community development and housing purposes. These four grants are incorporated into the Consolidated Plan, a combined planning and submission process for the Community Development Block Grant, the HOME Investment Partnerships Program, the Emergency Shelter Grant Program, and the Housing Opportunities for Persons with AIDS (HOPWA) Program. The Community Development Block Grant is a grant which is used for a wide range of programs or projects within a broad framework of eligible activities and includes operating funds for planning and administration. The HOME Program is a grant which can be used for acquisition, construction, and moderate or substantial rehabilitation of affordable housing for either renters or existing or new homeowners. The Emergency Shelter Grant Program (ESG) is a grant which funds both physical improvements and operating needs for agencies which assist the homeless. HOPWA funds housing and supportive services for persons living with AIDS and their families.



## General Fund and Restricted Funds

Governments use fund accounting to keep different types of revenue and expenditures separate from each other depending upon the purpose of the fund. Each fund has a fund title and accounting code for reference purposes. The General Fund is just that - a fund that can be used for any general public purpose. This is the primary fund in the City operating budget and is used to deliver the basic municipal services such as police and fire protection, park maintenance, street repair, trash collection, and the operation of recreation centers and health clinics.

Restricted Funds, as the name implies, are restricted to a specific public purpose. The Water Works Fund is an example. The revenue that comes into the City from customers paying their water bills can only be used by the City to operate and repair existing or build new water facilities. The City could not use Water Works funds for other purposes like City parks maintenance or to purchase new solid waste collection trucks because expenditures are restricted to benefit only the water customers.

## Appropriated Fund Budgets and Non-Appropriated Funds

There are more than 100 funds in use by the City of Cincinnati which are controlled by enabling legislation setting the purpose and use of each fund. As an additional control, the City Council passes appropriation ordinances to approve the budgets for about 20 of the largest and most active funds. An appropriation is a legislated authorization to make limited expenditures based on projected revenues. Therefore, these appropriated fund budgets are explicitly approved by action of the City Council each year and can only be amended if the City Council approves ordinances for budget transfers, increases, or decreases. All of the other non-appropriated fund budgets have ongoing authorization for expenditures within resources by virtue of their enabling legislation. The non-appropriated fund budgets can be administratively amended as needed without ordinances.

Amendments to the budgets are generally proposed by the City departments, due to a change in plans or special circumstances such as unusual weather conditions (floods, record snowfalls). For appropriated funds the amendment must be prepared in the form of a supplemental or transfer appropriation ordinance recommended by the City Manager for adoption by the City Council. For non-appropriated funds the amendment must be a written memo for administrative approval of the City Manager.

## Basis of Budgeting

The Budget of the City of Cincinnati is prepared on a cash basis with the exception of certain accrued personnel services and employee benefit costs. The levels of appropriation control for each budgeted expenditure classification that may not be exceeded are the following: personnel services, non-personnel services, capital outlay, and debt service. Any revisions that alter the budgeted expenditures within a classification of any Division within a City Department must be approved by the City Council. Encumbrances, which are amounts of money committed for the payment of goods or services ordered but not yet received, do not lapse at year-end. They are included as expenditures in the year for which the Budget is adopted.

## SOURCES AND USES OF FUNDS

The sources and uses of funds relate to where the City gets its revenues or other resources to pay for the services the City provides. For example, the primary source of funds for the General Fund is City Income Taxes - the City gets over 60% of its General Fund revenue from income taxes. The primary use of the City's General Fund resources is public safety (police and fire) services which comprise more than half of the operating expenses. The City's Restricted Fund sources may not be mismatched. For example, the Cincinnati Water Works (a Restricted Fund) revenues from water sales are restricted and may not be used to improve the Convention Center. However, General Fund revenues may be used for whatever general municipal purpose that the City Council



designates. The sources and uses for each of the Budgets (Operating, Capital and Consolidated Plan) are presented in this Part of the Budget document.

## Operating Budget - Sources of Funds

### General Fund

**City Income Tax.** The City Income Tax is a 2.1% locally levied tax applied to gross salaries, wages, and other personnel service compensation earned by residents both in and out of the City and to earnings of non-residents earned in the City. It also applies to net income of business organizations for business conducted in the City. The income tax is the largest single source of General Fund revenue.

The receipt of 1.55% Income Tax revenue over the fixed allocation to the General Fund is recognized as revenue in the Income Tax Permanent Improvement Fund at the end of the year. This amount is carried forward for subsequent year capital or operating needs.

**Intergovernmental Revenue.** The two major types of revenue in this category are the estate tax and the Local Government Fund distribution from the State of Ohio. The Local Government Fund revenue estimate for 2001 and 2002 reflects the State Legislature's statutory percentages adopted in the State's Biennial Budget.

**Property Taxes.** The General Fund 5.4 mills property tax includes real property, public utilities property, and tangible property. The real property consists of residential, commercial, and industrial property. Real property experienced the last statutory sexennial reappraisal in 1999. Traditionally property tax revenue fluctuates due to the statutorily required sexennial reappraisal and the intervening third year review and appeals which are granted to taxpayers. The property tax projections assume no change in the 5.4 mills tax rate authorized in the City Charter for current operating purposes.

**Licenses & Permits.** The Licenses and Permits revenue category includes revenue from building

permits, street-opening permits, and various business licenses.

**Courts and Use of Money and Property.** The Courts and Use of Money and Property revenue category includes interest earnings and fine revenue.

**All Others.** This category includes miscellaneous revenue and charges for services.

### Restricted Funds

Restricted Funds receive their revenues or resources primarily from their customers to whom they provide either goods or services. For example, the Cincinnati Water Works receives the majority of its revenues from the sale of water to its customers, while the Golf Fund receives its revenues from the greens fees its customers/golfers pay. Most Restricted Funds receive other revenues, such as investment earnings from its cash balances, and other incidental amounts. Part IV of this Budget document discusses the various individual Restricted Funds' sources (and uses) on a fund by fund basis.

## Operating Budget - Uses of Funds

In general, budgetary control for the use of a fund's resources is established for each appropriated fund for the following expenditure account classifications: personnel services, non-personnel services, capital outlay, and debt service. Any revisions of the appropriation level for any appropriated fund must be approved by the City Council.

### General Fund and Its Uses

The General Fund is a fund that can be used for any general public purpose. This is the primary fund in the City Operating Budget and is used to deliver basic municipal services such as police and fire protection, park maintenance, street repair, trash collection, and the operation of recreation centers and health clinics. City employees' salaries (personnel services) are paid from the General Fund, as are supporting costs such as supplies (non-personnel services).



## Restricted Funds and Their Uses

Restricted funds, as the name implies, are restricted to a specific public purpose. Part IV of this Budget document discusses the various individual Restricted Fund's uses on a fund by fund basis.

### Non-Appropriated Restricted Funds and Their Uses

Non-appropriated Restricted Fund expenditures are authorized in the ordinances which establish those funds. They are referred to as "non-appropriated" because these budgets are appropriated/approved by City Council only once, at the time City Council adopts a fund's initial budget or plan of expenditures – no individual annual appropriation ordinances are required. Non-appropriated funds have ongoing authorization for expenditures within realized resources by virtue of their enabling legislation. Their budgets are based on resources and are determined administratively without requiring the passage of annual appropriation ordinances. This category of operating funds is primarily comprised of grant funds such as the Health Department grants, Employment and Training Division grants, and Police Division grants, or single purpose funds.

## Capital Budget - Sources of Funds

### General Capital

**City Income Tax.** The component of the 2.1% Income Tax dedicated for General Capital use is 0.15%.

**Property Tax Supported Bonds.** The assessed valuation of property within the City subject to ad valorem taxes includes real property, public utilities property, and tangible personal property. Some general obligation debt may be issued without a vote of the public. The debt cannot be issued unless there are sufficient tax proceeds for the payment of the debt service on the bonds. The estimate for Property Tax Supported Bonds (unvoted bonds) reflects continuance of the City Council policy to maintain a constant property tax millage of 5.36 mills for debt service requirements. This City Council policy establishes the parameters for how much capital financing resources will be available from the issuance of debt. The City is well within the unvoted statutory debt limitation of 5 1/2% of assessed value in the City.

The Property Tax Supported Bonds portion of the general capital resources continues Cincinnati's long standing policy of no increase in taxes and replacement of debt service on maturing debt with new debt service requirements. This general policy has enabled the City to institute debt management policies which enhance credit worthiness. Including the City's 2000 general obligation bond issue, 58% of the City's outstanding general obligation property tax and self-supported debt will be retired by December 31, 2005, while 77% will be retired by December 31, 2010. By December 31, 2020, 94% of the City's outstanding general obligation property tax and self-supported debt will be retired, with the balance of the outstanding general obligation and self-supporting debt retired by 2035. Credit quality and affordability issues, used by bond rating agencies to determine the City's bond rating, continue to be positive indicators for the City. The City is rated Aa1 by Moody's and AA+ by Standard & Poor's.

Although the City currently utilizes general obligation bonded debt for self-supporting bond issues (such as water works, parking system, and recreational facilities), self-supporting revenue sources have been, and are expected to be, sufficient to pay principal and interest requirements on all self-supported debt.

The City has also issued bonds with debt service to be paid by a portion of the 0.15% income tax earmarked for capital purposes. This strategy has been utilized by the City Council to leverage funds for special projects such as to take advantage of emerging development opportunities. The City uses this strategy sparingly, in order to have funds available for pay-as-you go (cash) projects.

**Property Proceeds.** The Property Proceeds resource includes proceeds from the sale of property and temporary rents from development sites. The City Council by resolution requires 50% of net rental income and tax increment payments from Fountain Square South and





Hyatt/Saks and 100% of net income from the Sixth and Race property to be programmed for housing projects in neighborhoods.

***Southern Railway Note Proceeds.*** Cincinnati owns the Cincinnati Southern Railway and leases its use. In 1987, the City renegotiated the terms of the lease for more favorable annual income. The City Council endorsed a policy by resolution to dedicate funds generated by the Southern Railway to infrastructure projects. The notes issued and interest income provide a resource for infrastructure projects.

***Tax Increment Self-supporting Bonds/Notes.*** Tax increment payments in lieu of taxes for property improvements, in accordance with City Council policy, are used for public improvements in the Central Business District (CBD) urban renewal area.

***Reprogramming Resources.*** Reprogramming resources are unused funds recaptured from projects which are completed. The remaining balances are available and recommended for use in new projects.

***General Fund Resources.*** Funds transferred from the General Fund to the Permanent Improvement Fund provide funding for pay-as-you-go capital projects. For the 2001 Capital Budget, resources transferred from the General Fund will support neighborhood business district improvement projects, the Post Office Relocation project, neighborhood market rate housing development, the Contemporary Arts Center project, park improvements, and the purchase of safety and computer equipment.

## Special Revenue Funds

***Special Housing Permanent Improvement Fund.*** This fund, which is supported from net rental income and tax increment payments, provides revenue for the New Housing Program administered by the Department of Neighborhood Services. This program supports the development of new market-rate housing in the City.

## Matching Capital Funds

The City receives Federal grants, matching funds and also manages State and County funds

to improve the City's roads and bridges. The General Aviation Division of General Services typically receives funding from the Federal Aviation Administration (FAA). The amount of funds granted by the FAA varies from year to year. Once actual grants are received, the resulting project is budgeted and matching City funds are recommended to the City Council for approval.

The Transportation Efficiency Act for the Twenty-First Century (TEA 21) allows for the flexible use of selected Federal Transit Authority and Federal Highway Administration grant programs, and supports comprehensive transportation systems planning through enhanced metropolitan and statewide planning provisions.

## Capital Budget – Uses of Funds

### General Capital

The General Capital Budget can be stratified into six expenditure categories. The Project Expenditure Categories include Economic Development, Environment, Equipment, Housing and Neighborhood Development, Infrastructure (Smale Commission), and New Infrastructure. A complete listing of projects by expenditure category is provided in the Appendices, Part VII of this document. The New Infrastructure category was added for the 1997/1998 Biennial Budget to distinguish new capital improvements from Infrastructure (Smale Commission) projects, which provide for the renovation or replacement of existing City assets.

***Smale Infrastructure Requirement.*** In December of 1987, an independent commission headed by John Smale, Chief Executive of Procter and Gamble, completed a study to assess the City's infrastructure and to make recommendations for upgrading the City's physical assets. As a result of the study completed by the Smale Commission, the City Council passed the Infrastructure Income Tax Ordinance (#38-1988). This ordinance requires that the City meet a commitment to appropriate and spend sufficiently for infrastructure or the tax will expire.

The Infrastructure Income Tax portion of the earnings tax is not included as a Capital Budget resource because it is dedicated primarily to infrastructure maintenance, an Operating Budget item. Capital infrastructure expenditures are included with the operating infrastructure expenditures to meet the annual minimum expenditure requirement. This ordinance also provides for annual increases to the minimum expenditure requirement base amount by using the percentage change in the Implicit Price Deflator for the Gross National Product. The estimated minimum expenditure requirement for 2001 is \$56.9 million.

To assure that the City meets annual expenditure requirements in order to maintain the 0.10% Infrastructure Income Tax, the City budgets more than the required amount as a safeguard against potential delays in capital project implementation.

## Expenditure Categories

***Economic Development.*** This category is for new development or improvement projects in the Central Business District, industrial zones, and neighborhood business districts.

***Equipment.*** This category is for equipment purchases such as new computer systems and City fleet replacements.

***Environment.*** This category is for projects that relate to the remediation and/or prevention of environmental problems such as the removal of underground storage tanks and the remediation of old landfills.

***Housing and Neighborhood Development.*** This category is for projects that support housing and development projects in the City's neighborhoods.

***Infrastructure (Smale).*** This category is for projects that provide for the renovation or replacement of existing City assets. This category is the largest expenditure category.

***New Infrastructure.*** This expenditure category was added during the development of the 1997/1998 Biennial General Capital Budget to

distinguish between new capital improvements and the Infrastructure (Smale Commission) expenditure category, which includes only the renovation and replacement of existing City assets.

## Restricted Capital Funds

Restricted capital funds use revenue generated from user fees or charges from a particular restricted or enterprise activity to support new capital projects and/or improvements to existing assets which benefit that particular restricted or enterprise activity or service. For example, Stormwater Management Utility revenue generated from service charges is used to make drainage corrections and improvements. These capital drainage correction and improvement projects are funded after Stormwater Management Utility operating and maintenance costs, and debt service requirements are covered. Grants and matching funds the City receives from various Federal, State, and County sources are also restricted based on the type of activity or by program guidelines. For example, grant proceeds from the Transportation Efficiency Act for the Twenty-First Century (TEA 21) can only be used for transportation planning related activities.

## Consolidated Plan Budget - Sources of Funds

This Budget provides for a mix of housing, economic development, and human service programs funded with Community Development Block Grant (CDBG) resources, and housing programs and services funded with the HOME Investment Partnership grant, Emergency Shelter Grant (ESG), and Housing Opportunities for Persons with AIDS (HOPWA) grant. The other resource components for the CDBG program are locally generated program income, and the year-end carryover from the recovery of prior year project funds and savings in operating funding.

## Community Development Block Grant (CDBG)

The Community Development Block Grant (CDBG) is a formula grant from the Federal Department of Housing and Urban Development



(HUD) to local and state governments. The primary objectives of the CDBG program are to provide decent housing, suitable living environment, and economic opportunities principally for persons of low and moderate income, or aid in the prevention or elimination of slums and blight. CDBG funds are a flexible resource which can be used for a wide range of programs or projects within a broad framework of eligible activities. Overall, 70% of CDBG expenditures must benefit low and moderate income persons.

## **HOME Investment Partnerships Program**

The HOME Investment Partnerships Program is a formula grant which funds affordable housing programs. HOME funds can be used for acquisition, construction, and moderate or substantial rehabilitation activities which promote affordable rental and ownership housing. It can also be used for tenant-based rental assistance. Cincinnati uses HOME funds primarily for the rehabilitation of rental housing units for low income families, and for homeowner rehabilitation and the promotion of new home ownership opportunities.

## **Emergency Shelter Grant (ESG)**

The Emergency Shelter Grant (ESG) Program is a formula grant which can fund both the capital and non-staff operating needs of emergency shelters and transitional housing for the homeless. Outreach or supportive services for the homeless are also allowable uses of funds. ESG funds are administered by the Department of Neighborhood Services.

## **Housing for People With AIDS (HOPWA)**

The HOPWA formula grant is the result of the number of cases of AIDS within the region reaching a 1,500 case threshold. Funds are received by the City as the central city of a twelve-county, three state region, but must be expended to benefit AIDS patients throughout the region. Funds may be used to assist all forms of housing designed to prevent homelessness of AIDS victims including emergency housing, shared housing arrangements, apartments, single room occupancy dwellings, and community residences. HOPWA funds also may be used to

fund services such as health care and mental health services, drug and alcohol abuse treatment and counseling, intensive care, case management, assistance with daily living, and other supportive services. The Department of Neighborhood Services administers the grant.

## **Consolidated Plan - Uses Of Funds**

### **Housing Component**

A primary objective for the use of CDBG funds by the City of Cincinnati is to serve its communities by providing decent housing and a suitable living environment to low and moderate income persons. A large amount of CDBG funds are spent on providing or improving permanent residential structures through the City's Department of Neighborhood Services. Neighborhood Services provides a variety of services to both very low and low income homeowners and renters. Most of these programs have been made available to eligible clients on a citywide basis rather than focusing on certain neighborhoods. The following is a summary of funded housing programs.

***Programs for Existing Homeowners*** include a rehabilitation loan program which returns housing units to building code standard and a program of home repair and emergency repair grants for very low income elderly, disabled, and single parent homeowners.

***Programs for New Homeowners*** include Homesteading, in which blighted vacant buildings are sold for \$1 in a lottery to first time homeowners who will rehabilitate the homes. The City also provides down payment assistance to first-time homebuyers citywide, as well as in a neighborhood target area, and seeks other opportunities to increase the City's homeownership rate through focused revitalization in specific neighborhoods, or through competitive developer projects assisted with City loans or grants.

***Programs for Renters*** include a citywide rehabilitation loan program available to owners of affordable rental property, and a competitive program for developers of rental housing within the City (either new or rehabilitation).





**Supportive Housing Services** are also provided, including counseling for existing and new homeowners, legal representation for tenants, relocation services for tenants due to the enforcement of the building or health codes, and fair housing services to promote equal housing opportunities for all persons.

**Homeless Housing** is supported through funding to rehabilitate shelters and transitional housing facilities which serve the homeless. Operating funding for homeless agencies is provided through the Emergency Shelter Grant, and housing and supportive services is provided by the HOPWA grant to ensure that persons living with AIDS have access to housing and supportive services.

## **Economic Development/ Job Development Component**

CDBG funds provide loans, grants, public improvements, and technical assistance to businesses and industries to expand or consolidate their operations within Cincinnati, providing jobs for low and moderate income persons or goods and services for low and moderate income neighborhoods. CDBG funds are also used for job training and referral services.

Through the **Neighborhood Business District Program**, the Department of Economic Development aims to increase economic vitality by increasing sales revenues of individual businesses, creating and retaining jobs in neighborhoods, and improving the physical environment through the funding of facade, streetscape, and other public improvements in the neighborhood business districts.

The **Small Business Loan Program** provides loans for growing small businesses where additional financing is needed for expansion, providing additional jobs, and commercial services for Cincinnati neighborhoods.

Through a contract with the **Cincinnati Minority & Women's Business Incubator (CBI)**, the Department of Economic Development funds technical assistance and incubator facilities for minority and women owned businesses.

Through the **Industrial Site Program** and individual industrial redevelopment projects, the Economic Development Department assists businesses with loans or grants for property acquisition or site improvements in order to expand and promote job creation and retention for low and moderate income persons of the city.

The Employment and Training Division of the City of Cincinnati is responsible for administering various programs which provide employment opportunities to low/moderate income residents of the City through the Cincinnati Institute for Career Alternatives (CICA). CICA provides employment referrals and placements with employers receiving CDBG and other forms of assistance. CICA also provides low-cost transportation services to low income City residents through a vanpool program. The Citizens Committee on Youth (CCY), a contract agency, conducts pre-employment training, teaches job readiness and life skills, and provides work experience for Cincinnati youths and young adults.

## **Human Services Component**

CDBG funds are provided for the operation of various programs, primarily for at-risk youth, providing counseling, surrogate parenting, and youth employment. CDBG funds are also used to provide social service agencies with assistance to rehabilitate their service-delivery facilities.

## **Planning and Administration Component**

Administration includes coordination of budget and Federal reporting requirements and compliance with federal program mandates.

## **Compliance with CDBG Program Limits**

The CDBG Program has statutory funding limitations. Public service activities may comprise no more than 15% of the program year's entitlement grant amount, plus program income. Planning and general administration activities are limited to 20% of the program year's entitlement grant and program income. The approved budget activities in these categories are within the program caps.



Activities which meet the national objective of slum and blight elimination may comprise no more than 30% of the expenditures in any given program year, with the balance of 70% benefiting low and moderate income persons. Approved budget activities for slum and blight are proposed to be well within the cap.

## **SPECIAL ORGANIZATIONAL REPORTING AUTHORITY**

### **City Boards and Commissions**

Three City Departments - Parks, Recreation, and Health - are agencies which report to independent City boards or commissions. Members of the board or commission are appointed by the Mayor and approved by the City Council. The budgets for these three Departments have a special public review process because the Departments present the budget to their public boards for approval before submitting the budget to the City Manager.

### **Contract Agencies**

The City contracts with many private entities to purchase goods and services. Due to their key role in service delivery, three agencies are specifically included in the City's Budget. Two of these City agencies, the Cincinnati Human Relations Commission and the Citizens Committee on Youth, are not-for-profit corporations whose primary mission is to provide public services to the citizens of Cincinnati. Their operations and policies regarding services provided to City residents are determined by a formal contract with the City. The City Council approves City funding to purchase the services of these agencies and authorizes the contracts. The staffs of these agencies are employees of their respective boards and are not City staff.

The contractual relationship with the Southwestern Ohio Regional Transportation Authority (SORTA) is somewhat different since SORTA is a quasi-governmental regional authority created by State law. SORTA is partially funded by the 0.3% portion of the City of Cincinnati Income Tax dedicated to transit

purposes which supplements fare box revenue of the Queen City Metro bus service and State and Federal funds. Queen City Metro provides bus service within the Hamilton County area primarily for the benefit of City residents. The dedicated City Income Tax revenue is received into a restricted Transit Fund and the City Council appropriates the Transit Fund Budget. The City Council may also use the Transit Fund for other general transportation purposes.

### **County-wide Services**

Two City agencies with Restricted Fund Budgets, the Regional Computer Center (RCC) and the Department of Sewers, are operated by the City of Cincinnati but serve the entire Hamilton County region. RCC provides computer services for the City, Hamilton County, and local law enforcement agencies. The Department of Sewers manages the Metropolitan Sewer District (MSD) and the City's Stormwater Management Utility.

The Cincinnati Water Works provides water to its customers in the City as well as to its customers in various Hamilton County communities and neighboring counties in Ohio. An agreement has been signed to provide water to Kentucky residents.

## 2001/2002 BUDGET DEVELOPMENT

### Budget Roles and Responsibilities

**Department Directors and Division Heads** are responsible for setting annual performance goals and objectives for operating programs, and identifying program costs using departmental, financial and budget data sources. They also evaluate their Capital Budget needs and propose capital projects.

The **Department Budget Coordinators** are in charge of preparing the Department's formal budget submission. They are responsible for estimating personnel and non-personnel costs associated for their Department. They interact with their Department Director and the B&E Management Analyst throughout the entire budget process.

The **Budget and Evaluation Manager and Senior Management Analysts** in the Office of Budget and Evaluation (B&E) coordinate the budget process for City departments. B&E presents the Departments' requests and B&E recommendations to the Executive Budget Committee (EBC). B&E then compiles the City Manager's recommendations into Recommended Budget documents for presentation to the City Council. B&E Management Analysts are assigned to assist departments in budget development and to analyze budget requests for recommendation to the City Manager, and to City Council.

The **Executive Budget Committee (EBC)** is comprised of the City Manager, the Deputy City Manager, the Assistant City Manager, the Finance Director, and the Budget and Evaluation Manager. The EBC reviews the B&E analyses and recommendations regarding the departmental requests to ensure that the preliminary base budgets and exception requests meet City needs and Council Priorities, while not exceeding forecasted resources for the City. After meeting with the various City agencies requesting funding, the EBC then makes a final recommendation to the City Manager who, in turn, makes an Operating Budget recommendation to the City Council.

The **Capital Committee** is a peer group of Department directors, chosen by the City

Manager, who review all Department Capital project requests and make a funding recommendation. The EBC reviews the recommendation of the Capital Committee and, in turn, develops the Capital Budget recommendation which is submitted in a Recommended Budget document to the City Council.

The **Human Services Advisory Committee (HSAC)** is a citizen advisory group to the City Manager which reviews and recommends City funding for human service activities. This includes recommendations for human services operating support in the General Fund. Within the Consolidated Plan Budget, the HSAC reviews the human services component, the homeless housing renovation activities, and the homeless shelter activities funded through the Emergency Shelter Grant (ESG).

The **Community Development Advisory Board (CDAB)** is a volunteer citizen's group broadly representative of the community which advises the City Manager on the development of the Consolidated Plan Budget. The CDAB Housing and Economic Development subcommittees each meet to review requests submitted by the Departments for funding. The full CDAB considers the recommendations of the subcommittees and the HSAC and finalizes the recommendations to the City Manager.

The **HOPWA Advisory Committee (HAC)** reviews program regulations, a funding distribution plan, and a set of proposed funding guidelines for the Housing Opportunities for Persons with AIDS (HOPWA) grant.

The **City Manager** through the Finance Department, assembles estimates of the financial needs and resources of the City for each ensuing year, and prepares a program of activities within the financial resources of the City. They are embodied in a budget document with proper supporting schedules and analyses. The City Manager submits the Recommended Budget to City Council.

The **City Council** uses the priority goals and strategic planning along with citizen input to modify and approve the Biennial Budget. After the City Council's Finance Committee reviews



the proposed budget allocations, program staffing, performance measures, and capital projects in the Recommended Budget, the City Council makes final decisions for a balanced budget, adopts a resolution approving the two-year budget, and passes appropriation ordinances for the first year of the biennium.

## Budget Development Process

The City Administration's primary objectives in the budget process are to enhance the City Council's strategic policy development and to improve citizen participation for input to the City Council in budget decision making. Toward that end an improved Community Priority Request process was implemented in 1998 to bring the communities in closer contact with Cincinnati Neighborhood Action Strategy Teams at the earliest possible time in the budget process. The City of Cincinnati's Biennial Budget development is comprised of several stages. A budget calendar and a brief description of the various stages of this biennium's budget process follow.

## Budget Calendar

**January 2000.** The City Council approves the 2001/2002 budget development plan.

**February – April 2000.** The Community Budget Priorities are identified with citizen input (see *Community Budget Priorities*, this page, for details).

**March 2000.** The Administration meets with City Council to discuss the formulation of a Policy Budget (see page 25 for details)

**May – June 2000.** Operating and Capital Budget Instructions are sent to City department.

**June 2000.** The City Council adopts a Policy Budget by Resolution (#130-2000).

**June – July 2000.** Departments prepare budget requests per Instructions.

**July – August 2000.** The Finance Department's Office of Budget & Evaluation analyzes requests and makes recommendation to the Executive Budget Committee (operating budget) and the capital committee (capital budget).

**November – December 2000.** The City Council holds Public Budget Hearings to get additional citizen input prior to making its final budgetary decisions.

**December 20, 2000.** The City Council passes appropriation ordinances establishing the operating and capital budgets for 2001.

**December 2001.** The City Council passes appropriation ordinances establishing the operating and capital budgets for 2002, after following a similar process as detailed above, except that the Community Priority Request Process is conducted only once during a biennium.

## Policy and Education Stage

**Citizen Survey.** The University of Cincinnati Institute for Policy Research conducted a citizen survey in the summer of 1999 for the City Council's use in the Policy and Education Stage of the budget process. The City and the Institute have periodically used the same basic survey since 1981 to identify citizen opinions regarding quality of City services and priorities for the City Budget. In March, the survey results were formally presented to the City Council. Highlights of the 1999 Citizen Survey can be found in the Appendices, which is the seventh Part of this document.

**Community Budget Priorities.** City residents, in consultation with Cincinnati Neighborhood Action Strategy (CNAS) Teams, had the opportunity to make requests of City departments to include neighborhood proposed or endorsed budget requests. A description of the budget process and how to complete the priorities package was sent to the 52 community councils. Each neighborhood could include up to five Community Priority Requests for the 2001/2002 biennium which were most important to their immediate community. Neighborhoods also identified existing community resources which would help to implement the desired service or project. Part III of this document contains a report summary of these Community Priority Requests and an overview of the Cincinnati Neighborhood Action Strategy.





**Policy Budget Development Process.** The City Manager presented a report to the City Council in June 2000. The report focused on three elements that were to be included in the City Council's Policy Budget Resolution. Those elements were: a decision on the property tax millage for 2001, a limit on the growth of General Fund expenses, and a neighborhood investment program. The report also included a six-year forecast. On June 28, the City Council adopted the Policy Budget which included the three elements mentioned above. The budget and financial policies cited in the Policy Budget are shown on page 25 of this document.

## Financial Capacity Stage

**Demographic/Economic Trends and Outlook.** Forecasting is an integral part of Cincinnati's decision making. In 2000, a six-year forecast of demographic/economic trends was prepared for the City Council. It included an analysis of demographic characteristics and trends, the outlook for the local economy, financial indicators, and City cost drivers. This was presented at a meeting of the Finance Committee. This forecast is explained in further detail in Part III of this document.

**Revenue and Expenditure Forecast.** Based on the Demographic/Economic Trends and Outlook, revenue and expenditures were estimated and a Tentative Tax Budget was provided to the City Council. The Tentative Tax Budget, which is required by State law, is a preliminary resource and expenditure forecast for the first year of the biennium. These preliminary assumptions provide a balanced financial framework upon which budget targets can be developed. Targets are a planned expenditure limit that an agency may request for a given budget period. They are established based on past budgets adjusted for inflation, a continuous level of service, and citizen expectations based on what has been done before.

## Budget Development Stage

**Operating Budget.** Based on City Council's priorities and strategic policy direction, department directors have the responsibility to

set annual performance goals and objectives for each operating program and identify program costs using departmental, financial, and budget data sources. Budgets are established for standard line-items within personnel and non-personnel cost categories. The base budget includes operating services which were currently funded (in the 1999/2000 Biennial Budget). These services are included in the target for each agency. Agencies may also submit budgetary requests in excess of the target amount. They are based on these special criteria: 1) a legal mandate, 2) a substantial workload increase, 3) a directive by the City Council, 4) an improvement in efficiency and service delivery, or 5) a significant return on investment or a unique opportunity for the City.

**Capital Budget.** During this stage for the Capital Budget, City departments make requests for capital projects. These requests include ongoing projects, improvements to existing assets, previously funded phased projects, and new projects. The criteria used in developing the Capital Budget are described below in descending priority sequence: Hazard Elimination, Legal Mandates, Regulatory Compliance, Project Completion, Prevent Failure, Extend Useful Life, Cost-Benefit Justified, and Service Betterment.

## Review/Modification Stage

**City Administration Review.** The Finance Department's Office of Budget and Evaluation (B&E) coordinates the budget process for City departments and presents the Departments' requests and B&E recommendations to the Executive Budget Committee (EBC). The EBC reviews the departmental requests to ensure that the preliminary base budgets and exception requests meet City needs and Council priorities, while not exceeding forecasted resources for the City. The Capital Committee reviews the Departments' 6-year (three biennium) Capital Improvement Plans and submits a recommended budget to the EBC who reviews and modifies the recommendation. B&E then compiles the City Manager's recommendations into the Recommended Budget which is then presented to the City Council.





**Citizen Committee Review.** The City utilizes the volunteer time of dedicated citizens to review and make recommendations to the City Manager concerning allocation of the Human Services Policy amount, allocation of the Arts Policy amount, and Consolidated Plan programs (the federally funded Community Development Block Grant, HOME program, Emergency Shelter Grant, and HOPWA).

## Adoption Stage

**City Council Budget Decision Making.** On November 8, 2000, the City Administration presented the City Manager's Recommended Biennial Budget to the City Council. The Finance Committee of the City Council reviewed the proposed budget allocations, program staffing, and performance measures. In November 2000, City Administration provided the City Council with updated resource forecasts for all funds with recommendations to balance the budget decision items as requested by the City Council. The City Council made its final decisions for a balanced budget, adopted a resolution approving the two-year budget, and passed appropriation ordinances for the first year of the biennium on December 20, 2000.

**Public Budget Hearings.** After the Biennial Budget was presented, the Finance Committee held four public hearings and deliberated the budget. The City Council held one public hearing in City Hall and three in neighborhood locations. During the Public Budget Hearings the biennial budget highlights were presented to the public. Public comment was then taken on the Capital, Operating, and Consolidated Plan budgets. Based on citizen input, the City Council made a series of reallocations of funds to new and existing programs. These City Council initiated budgetary adjustments are discussed in Part III of this document.

**Biennial Budget Adoption.** Although this document presents a two-year budget, Ohio statute requires an annual appropriation. Therefore, only the 2001 fiscal year budget has been adopted by the City Council. A review of the 2002 fiscal year budget is planned for the summer/fall of 2001, followed by a formal

adoption and appropriation ordinances in December 2001.

## Implementation Stage

**Budget Control.** Departments are accountable for budgetary control throughout the fiscal year. Every year the City performs a Budget Monitoring process, where expenditure patterns are compared to Departments' expenditure estimates. In addition, a Budget Status Report process is initiated in the fall of each year, which involves the reporting of the Department's actual revenue, expenditure, and fund balance performance to the Office of Budget and Evaluation. In compliance with State law, B&E then prepares a Final Adjustment Ordinance which balances each fund account at year's end.

**Budget Amendments.** In some cases, amendments to the Budgets may be proposed. Generally, amendments are proposed due to a change in plans or special circumstances such as unusual weather conditions (floods, tornadoes, record snowfalls, etc.). The City's Operating Budget is approved at the Department level, and the Capital Improvement Plan is adopted at the project level. Any transfers between Departments or projects require an amendment process. For appropriated funds the amendment must be prepared in the form of a supplemental or transfer appropriation ordinance recommended by the City Manager for adoption by the City Council. For non-appropriated funds the amendment must be a written memo for administrative approval of the City Manager.



## BUDGET AND FINANCIAL POLICIES: POLICY BUDGET

The policies listed below were adopted by the City Council via the “City of Cincinnati Policy Budget” Resolution 130-2000 on June 28, 2000. They were developed to maintain or improve the City’s financial condition and ensure excellence in service delivery.

The development of the City’s Budget and Financial Policies is a dynamic ongoing process where policies are implemented to assist in the decision-making of the organization. These policies provide guidelines for short- and long-range planning of major goals and objectives, and the analysis, evaluation, and reporting of financial activities. The overall mission in setting Budget and Financial Policies is to give management the tools necessary to improve the financial condition of the City for its citizens and other stakeholders.

### Budget Development Principles

The biennial budget development process emphasizes budget policy review, budget education, and citizen involvement. The following principles guide the development of the City’s Biennial Budget:

- The City will annually balance the budget.
- The City government encourages citizen participation in budget development.
- The City government strives to achieve the highest quality of life for citizens in safe, livable neighborhoods and a safe, vibrant downtown through the budget.
- The City government reflects efficiency and effectiveness in service delivery, asset maintenance, and capital improvements in the budget.
- The City government at all times emphasizes sound financial planning and management.
- The City Manager’s proposed 2001-2002 biennial budget will include a six-year financial forecast which includes a 2% carryover balance in the year 2006.

### Budget Development Policies

Increase Neighborhood Reinvestment in Housing, Streets, and Business Districts by adding \$69 million in additional funds over the next six years. The City Council directs the administration to provide for an increase of \$30 million for market rate housing development and business district investment within the City Manager’s six-year forecast. The City Council affirms the administration proposal to add nearly \$39 million to the six-year budget for purposes of neighborhood street rehabilitation.

- a. Street Rehabilitation. The goal of this investment is to insure that more than 100 lane miles of streets will be rehabilitated each year during the life of the forecast period. The total funds available for Street Rehabilitation for this six-year forecast period will be set at \$96 million.
- b. Neighborhood Market Rate Housing. The City Council directs the administration to allocate \$40 million for market rate housing investment over the next six years. This amount increases the investment in market rate housing by \$24 million. If the budget were left at current service levels, \$16 million will be invested in market rate housing. Additionally, the City through the Consolidated Plan will allocate approximately \$47 million in federal funds for homeownership programs if current resource and resource allocation trends continue.



c. Neighborhood Business District Investment. The City Council directs the administration to allocate \$21 million (an additional \$6 million) for Neighborhood Business District investment over the next six years. If the budget were left at current service levels, \$15 million will be invested in Neighborhood Business Districts.

- Infrastructure (ongoing) Maintenance. To insure commitment to maintaining the City's infrastructure, the capital budget should provide adequate funding for infrastructure and other ongoing maintenance with special emphasis on streets, city facilities, especially recreation facilities and city fleet. Specifically, the biennial budget should include sufficient funds to perform more than 100 lane miles of street rehabilitation work annually.
- The City encourages competition for the allocation of City funds. To this end, the City commits to the continued use of the following allocation processes at their full funding levels: a. Cincinnati Neighborhood Business Districts United (CNBDU); b. Arts Allocation Committee; c. Human Services Advisory Committee; d. Community Development Advisory Board; e. Housing Round.
- The City Administration prepares a Budget Monitoring report to provide the City Council with the status of the City's Budget as of mid-year, to note any significant variances, and to provide related recommendations.
- A Sunset Review is conducted each year for the Capital and Consolidated Plan Budgets to recapture unused funds from departments and make them available for other budget priorities.
- The City maintains a Working Capital Reserve to assure a strong financial position and to protect the City's general obligation bond rating during periods of fiscal stress. The policy calls for achievement of a minimum reserve level, for emergency needs of a catastrophic nature, of no less than 5% nor more than 8% of general operating revenues by the end of the year.
- The City's Capital Budget describes if and to what extent capital spending will increase operating budget costs for current and future periods.
- During the Capital Budget Process, the City reviews City physical assets and suggests facilities for consolidation. The capital budget process will not include the net addition of facilities to the city inventory.
- Contingent Account Policies. The City budget will include \$1,000,000 in the contingent account primarily reserved for emergencies. It is the intent to not utilize the unappropriated surplus to fund projects off-budget.
- Performance Measures. The City Manager will continue the development of performance measures for each department. Consideration should be given to greater use of measures that will result in a more efficient government.
- The City maintains its infrastructure assets in order to meet the Smale Commission mandates for the repair, upkeep, and improvements of City streets, bridges, parks, recreation areas, and buildings. An income tax rate of 0.1% is imposed annually on earned income for this purpose.

## Revenue Policies

The City Council levies taxes or fees as specified in the City Charter, or as authorized under the laws of the State of Ohio, to generate revenue for service delivery and capital improvement purposes.



- The Biennial Budget is developed based on the current income tax and property tax structure in the City of Cincinnati.
- Income Tax - The City Income Tax is 2.1% of earnings by residents, non-residents who work in the City, and corporations located in the City. It is subdivided into four components: 1.55% for General Fund operating purposes, 0.3% for public transit, 0.15% for permanent improvements (capital) and 0.10% for maintenance of the City's infrastructure. The biennial budget assumes no additional income tax credits or deductions other than those currently allowed.
- Property Tax - City property taxes total 10.90 per \$1,000 of assessed value. Property tax is subdivided into two components: 5.4 mills for General Fund operating purposes, and 5.36 mills for debt requirements of the Capital Improvement Program.
- Intergovernmental revenues are sought from State, Federal, and other sources. However, the City is not obligated to continue financial support for non-City funded programs and projects after non-City funding has lapsed, except as agreed to as a condition of acceptance of intergovernmental revenues.
- The City ensures revenue collection through efficient collection systems.
- The City allocates additional funding of up to \$3,000,000 from the annual income tax revenue in excess of estimate (which is deposited into the Permanent Improvement Fund) for street rehabilitation in the following fiscal year.

## Expenditure Policies

- The Human Services policy of allocating 1.5% of the General Fund resources for basic social services will be maintained in the approved budget.
- Growth of the City operating budget will be no more than 75% of the inflation rates presented in the City Manager's 2001-2006 forecast. This cap will result in a savings of more than \$52 million over the six-year forecast period that will be used to fund additional neighborhood investments and property tax relief. The growth cap should not impact the present authorized sworn strength of the Police and Fire Divisions including providing the additional funds needed to pay for sworn police officers originally funded by federal Cops More grants.
- The City will designate 0.14% of its General Operating Budget for the support of the arts.
- Five percent of reimbursements from overpayments to Workers' Compensation will be spent on employee safety programs.
- Once the budget is approved by the City Council, Council may not enact any additional spending unless it at the same time enacts offsetting expenditure reductions or identifies new revenue sources.
- For appropriation and expenditure control purposes, budgeted expenditure classifications which may not be exceeded are personnel service, non-personnel service, capital outlay, and debt service. The City Council must approve revisions of or transfers between expenditure classifications.

## Operating Budget Policies

- The City prepares a General Fund Six-Year Forecast every two years, which will provide estimates of income tax and property tax revenue changes and expenditure changes for the forecast period. Explanations of revenue and expenditure assumptions will also be included in the forecast.
- The Savings Incentive Plan rewards City departments for being efficient and productive. Departments that save more than 1% of their General Fund appropriation receive 50% of the savings over 1% as a supplemental appropriation in the following year. This plan was suspended in 1999 due to budget constraints.
- The City prepares Final Adjustment Transfer Ordinances for General Fund and Restricted Fund accounts each year for the purpose of realigning accounts and providing funds for the on-going needs of City departments, and to ensure that all departments have balanced budgets by year-end.
- Targets are established for Operating Budget expenditures that reflect adjustments for program changes, increases in salaries and wages, increases in non-personnel services for inflation, and subject to the 75% growth cap. Budgetary requests in excess of the target amounts are considered exceptions and must meet one of the following criteria: legal mandates, City Council mandates, and City Manager initiatives.

## Capital Budget Policies

- In addition to other review considerations, the criterion listed below is used in developing the Capital Budget. A Capital Budget is for the improvement, construction, or purchase of City assets that cost \$10,000 or more and last at least 5 years. The criteria in descending order are as follows:
- Hazard elimination: to eliminate or reduce definite and immediate (i.e., within the Biennium) health and safety hazards.
- Legal mandates: to comply with statutory requirements, a court order, or other specific legal directive (consent decree, etc.).
- Regulatory compliance: to comply with a Federal, State, or local rule or regulation affecting capital assets.
- Project completion: to finish phased projects with related and already committed or expanded funding.
- Preserve existing assets: to systematically, according to schedule, improve assets, which if not periodically improved would fail, and to improve an asset by making a capital investment to increase the asset's service life.
- Cost-Benefit justified: to make a capital investment that is supported by benefits equal to or greater than the cost of the investment (e.g., benefits may be in jobs, revenue, operating cost savings, matching funds, etc.).
- Service betterment: to accommodate growth in service demand, or to otherwise increase the quality of service provided by the capital asset.





## Debt Service Policies

- The City will issue bonds for capital improvements and not for recurring operating expenditures.
- The City publishes an Official Statement for each bond and note issue in accordance with rules promulgated by the Security and Exchange Commission.
- The City fulfills all obligations for secondary market disclosure to keep bond market participants informed of significant financial activities of the City.
- The City utilizes property tax proceeds to support debt service payments on bonds and notes. It also levies taxes on property based on debt limitations in the Ohio Revised Code and the City Charter as follows:
  - As a result of a prior Court decision, the City has the right to levy property taxes without limitation to support its lawfully issued bonds and notes, and the City's ability to incur debt will be limited only by the arithmetical (percentage) limitations set forth under Section 133.03 of the Ohio Revised Code. The City's long-standing policy has been to maintain a tax millage of 5.36 mills for debt service requirements.
  - Section 133.03 of the Ohio Revised Code provides that the principal amount of both voted and unvoted debt of the City may not exceed 10.5% of the City's assessed valuation, and that the principal amount of unvoted debt may not exceed 5.5% of the City's assessed valuation. The Code also provides several exemptions of debt from the 5.5% and 10.5% limitations.
- The City retires over 85% of outstanding debt within 10 years.
- The City strives to maintain the City's bond rating in financial markets. The City is rated Aa1 by Moody's and AA+ by Standard & Poor's.

## Investment Policies

- The City's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio in accordance with State and Federal law. Accordingly, deposits are either insured by federal depository insurance or collateralized.

## Accounting, Auditing, and Financial Policies

- The financial statements of the City of Cincinnati are prepared in accordance with standards promulgated by the Governmental Accounting Standards Board (GASB). These standards include the effective pronouncements of the National Council on Governmental Accounting and the American Institute of Certified Public Accountants that are considered to be "generally accepted accounting principles" for state and local entities.
- The City performs periodic financial, program and contract internal audits to insure departmental compliance of City policies and to improve the overall operating efficiency of the organization.
- An independent audit is performed annually to render an opinion on the City's general-purpose financial statements.
- A Comparative Statement of Revenue and Expenditure is presented to the City Council monthly.

# Budget Basics

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